

VZCZCXYZ0011  
RR RUEHWEB

DE RUEHRK #0125/01 1201727  
ZNR UUUUU ZZH  
R 301727Z APR 07  
FM AMEMBASSY REYKJAVIK  
TO RUEHC/SECSTATE WASHDC 3268  
INFO RUCPDOG/USDOC WASHDC  
RUEHSM/AMEMBASSY STOCKHOLM 0148

UNCLAS REYKJAVIK 000125

SIPDIS

SENSITIVE

SIPDIS

STOCKHOLM FOR KEITH CURTIS  
COMMERCE FOR LEAH MARKOWITZ

E.O. 12958: N/A

TAGS: [EIND](#) [EINV](#) [EMIN](#) [ENRG](#) [SENV](#) [IC](#)

SUBJECT: Iceland: Local vote to stop smelter expansion may have silver lining for U.S. firms

Ref: Reykjavik 411

11. (U) Summary: Iceland's oldest aluminum smelter, owned by Canadian aluminum conglomerate Alcan, was denied permission to expand in a tight local referendum on March 31. The planned expansion was one of three aluminum projects in various planning stages, including two new smelters proposed by American firms Alcoa and Century Aluminum. Although environmentalists may seize on the results as a boost for their anti-aluminum campaign, in reality the result of the vote is likely a positive sign for the U.S. projects. The economy could not sustain all three projects, but it needs some of them. The U.S. projects enjoy local public support and are not located in areas with the same urban development issues. End Summary.

-----  
Enlargement would constrict town's growth  
-----

12. (U) The Alcan aluminum smelter was opened in the town of Hafnarfjordur, on the southern outskirts of Reykjavik, by Swiss Alusuisse in 1969 and sold to Canadian Alcan in 2001. Originally begun as a 30,000 tons/year operation, the smelter has been expanded several times and currently produces 180,000 tons/year. The planned expansion would have boosted the production capabilities to 460,000 tons/year, making it the biggest smelter in Iceland. During the last thirty years the population in Hafnafjordur expanded from 9,500 to 23,200 residents. Alcan employs some 500 workers, who live in Reykjavik and nearby municipalities.

13. (U) The main debate regarding the expansion revolved around how the expansion would not only cause the smelter to reach very close to existing residential areas in Hafnarfjordur, but would also block any further town expansion. Dilution zones (the amount of area needed surrounding the plant to absorb emissions) were widely debated; Alcan maintained that due to new scrubbing technologies the dilution zone would be smaller after the expansion than before. Opponents said the air pollution and environmental damage caused by expansion would reduce significantly the standard of living, as well as real estate prices, in the area. Pro-expansion arguments included the dramatic increase in the municipality's income from the smelter and the positive effects on employment and industry. In addition, the CEO of the Alcan smelter, Rannveig Rist, told the media that if the vote went against the expansion Alcan would probably close down.

-----  
Lost by 88 votes  
-----

14. (U) Due to perceived widespread opposition to the expansion

within the municipality and a lack of unity within the town council itself, the council decided a few months ago to put the decision before a referendum. All polls leading up to the March 31 election day indicated an extremely close vote, with both sides taking out full page newspaper ads and direct mail marketing of residents to persuade the vote. Voter turnout was very high; of 16,647 eligible voters, 12,747 came to vote, or 76.6 percent. The expansion lost by a mere 88 votes, with 6382 of the voters (50.35 percent) casting a "no" ballot versus 6294 votes (49.65 percent) on the other side. The result was a great disappointment for Alcan and CEO Rist told media that there was "no existing plan B" for the smelter and without the expansion there might not be grounds for continuing operations in the long run.

-----  
Environmentalists claim victory  
-----

15. (U) Environmentalists celebrated the result of the vote as a victory for the environment and Steingrímur J. Sigfússon, Chairman of the Left Green Party, claimed that it reflected the rising environmental consciousness of Iceland. Activists and the green political parties told the media the vote showed that the people of Iceland have had enough of heavy industry projects such as aluminum smelters and the power plants that are built to power them. While this vote was a local referendum in Hafnarfjörður, and a very close call, Sigfússon claims that this is a far bigger victory for the environmentalists than the government is willing to admit.

-----  
U.S. companies likely not affected  
-----

16. (U) Two other aluminum smelters in Iceland are owned by U.S. firms (reftel). Century Aluminum in the southwest near the town of

Akranes has a production capacity of 220,000 tons/yr and Alcoa in the northeast, which begins production in June, will have a capacity of 346,000 tons/yr. Both Century and Alcoa have expressed their intent to build new smelters in Iceland; Century plans a new smelter near the old U.S. military base in Reykjanesbaer, and Alcoa wants one near Husavík in the north. Both projects have the support of the respective local residents, but face opposition from environmental groups and green minded political parties who strongly oppose further big-scale industrial projects in Iceland. According to Gunnar Haraldsson, the Director of the University of Iceland's Institute of Economic Studies, the economy could not sustain two new smelters and the Alcan expansion, but it needs one or two of the projects to sustain the growing economy.

17. (SBU) Of the two U.S. projects, the Century project is further along. Century has submitted an Environmental Impact Assessment which is open to review by the municipalities involved, the National Planning Agency, the Environment Agency, and the general public. Proposed changes to the local development and zoning plan have been submitted by the town council of Reykjanesbaer, which supports the project, and the plans are now open for public comment. Century has signed an energy contract with the Sudurnes Energy Company for the first stage of the smelter, due to be operational in 2010, and is currently in negotiations with Reykjavík Energy for the purchase of energy for the second stage. (Note: The Century project is on the same part of the electrical grid as the Alcan smelter. With Alcan's expansion plans off the table, Century has stated to the media that it is willing to purchase all the energy that was to be sold to Alcan for the expansion. End Note.)

18. (U) The Alcoa project is not as far along in preparation. That project seems to face far more opposition on environmental terms, because it is to be built in a more pristine area and the firm is already unpopular due to negative publicity surrounding their current aluminum smelter and the Karahnjúkar hydropower project that was built for it. The Alcoa project entered the third phase of its feasibility study on April 18. The parties to the original declaration of intent for the smelter, Alcoa, the Ministry of Industry, and the municipality of Husavík, all agreed that the feasibility studies were promising thus far and should be continued.

19. (SBU) Comment: Environmental activists have heralded the Alcan/Hafnarfjordur vote as the first step towards a halt to heavy industry's growth in Iceland, and hope to use that momentum to sweep the current government out in national parliamentary elections on May 12. It is not clear, however, that voters nationwide will make the same calculations as Hafnarfjordur residents when they head to the polls. The outlook for U.S. firms' plans is fuzzy, but not automatically negative. Local sentiment in Husavik, for example, is far more pro-smelter than the overall feeling in Hafnarfjordur. If the next Icelandic government continues the current GOI policy of devolving authority to town councils on such matters, the vote in Hafnarfjordur may not have any impact on Century Aluminum's or Alcoa's plans. End Comment.

VAN VOORST